

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** January 30, 2008

**Bill Number:** H.B. 4493

**Authors:** Merrill, Mulvaney, and Cotty

**Committee Requesting Impact:** House Ways & Means Committee

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### Bill Summary

A bill to amend sections 12-6-510 and 12-6-520, Code of Laws of South Carolina, 1976, relating to brackets and rates applicable for individuals, estates, and trusts for purposes of the South Carolina income tax act and the annual inflation adjustment of brackets, so as to provide that the income tax liability of an individual income taxpayer is the lesser of the amount determined by applying the existing rates and brackets to the taxpayer's South Carolina taxable income or applying a flat rate of 3.4 percent to the adjusted gross income reported as the taxpayer's federal income tax return and to update the existing brackets and rates to reflect annual inflation adjustments to brackets and rate changes enacted in separate law; by adding section 12-21-630 so as to increase the existing license tax on cigarettes by 1.5 cents a cigarette and to provide that the additional revenue of the tax must be credited to the General Fund of the state to replace individual income taxes not collected as a result of the alternative flat tax method of calculating state individual income tax liability; and to amend Act 115 of 2007, relating to, among other things, individual state income tax rates, so as to delete a provision made obsolete by the provisions of this act.

### REVENUE IMPACT <sup>1/</sup>

This bill is expected to reduce General Fund individual income tax revenue in FY 2008-09 by \$103,023,874 while increasing cigarette tax revenue by \$103,023,874. The net impact on the General Fund in FY 2008-09 is expected to be zero. Based upon the declining growth in cigarette taxes versus increasing income tax revenue, the bill is expected to reduce General Fund revenue by \$9,272,149 in FY 2009-10 and an additional \$9,364,960 in FY 2010-11.

### Explanation

This bill would allow state individual income taxpayers the option of paying the lesser of the tax liability as calculated under the current tax structure for 2008 or a flat tax of 3.40% on federal adjusted gross income. Additionally, the bill increases the current cigarette tax by 30 cents per pack to 37 cents for an estimated increase in revenue of \$103,023,874 for FY 2008-09. The increase in the cigarette tax is to be credited to the General Fund to offset the reduction in individual income tax revenue. We anticipate that the income tax reduction combined with the cigarette tax increase will have a net zero impact on the General Fund in FY 2008-09. In future years, since cigarette tax revenue is declining whereas income tax revenue, excluding tax cuts, has been growing at 5%, the disparity between the reduction in income tax revenue and the increase in cigarette tax revenue will likely result in a net loss. At a rate of 5% growth in income taxes and a 4% decline in cigarette taxes, the net loss in the next two fiscal years will be \$9,272,149 in FY 2009-10 and an additional \$9,364,960 in FY 2010-11.

/s/ WILLIAM C GILLESPIE

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<sup>1/</sup> This statement meets revenue impact requirements of Section 2-7-71 for a state impact by BEA, Section 2-7-76 for a local impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by Office of Economic Research (OER).